

**Testimony in Support of HB 832 – The Targeted Economic Development District Act
Provided by Janet Cornish, Treasurer and Member of the Board of
The Montana Association of Planners
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HB 832 is the result of an effort by a statewide group to address concerns expressed during the 2005 session of the Montana Legislature and by administrative officials regarding the appropriate use of Tax Increment Financing (TIF) as a tool in urban renewal and community economic development programs.

Members of this statewide group included:

- The Montana League of Cities and Towns
- The Montana Association of Counties
- The Montana Association of Planners
- Representatives from the Department of Revenue, the State Budget Office and the Governor's Office of Economic Development
- Representatives of several tax increment agencies from across the state
- Consultants who assist communities in establishing TIF districts and in developing financing mechanisms including the issuance of bonds

The primary aim of this legislation is two-fold. **First** HB 832 clarifies the type of TIF districts that can be created. Under current statute, a community may create four types of TIF districts including urban renewal, technology, aerospace and industrial. HB 832 would allow for only two – urban renewal districts and targeted economic development districts (which would encompass technology, aerospace and industrial district types). **Second**, the bill provides for the additional involvement of the Montana Department of Revenue to help assure that TIF districts are formed appropriately and that TIF funds are expended within the limits of the statute. The bill establishes a \$1,000 fee for DOR review and sets a schedule for submittal of documentation.

In addition, the legislation provides clarification regarding the types of activities, which are eligible for TIF support.

TIF in Montana

In August of 2006, I conducted a survey of 35 Montana TIF programs, under contract with the Governor's Office of Economic Development. Responses were provided by representatives of each of the districts – county treasurers, community development directors, city and county managers, downtown program managers and city budget directors. Taxable valuation data was provided by local government personnel and

verified by the Montana Department of Revenue. The following is a summary of survey results:

- Since the first districts were created in 1977, TIF has generated economic activity resulting in over \$31 million dollars of new taxable value state-wide. This includes more than \$3,500,000 of valuation from sunsetted districts that has now been added to the tax base of school districts and state and local governments.
- In downtown **Billings**, TIF funds have been used in over 200 public-private partnerships with a leverage rate of \$5 private to every \$1 of public (TIF) funds. The taxable valuation is now nearly twice the base year value. (\$4,753,583 – base, \$9,574,717 – current).
- The taxable value in the Urban Renewal TIF district in Uptown **Butte** has increased by nearly \$3 million since the district's creation in 1980, despite an overall loss in population in the county of nearly 4,000 people during the same period. The Butte TIF Industrial District at Ramsay has created 240 basic industry jobs to date and an annual increment of over \$7 million.
- **Helena's** urban renewal program resulted in a doubling of the taxable value in its downtown – from \$894,952 to \$1,626,629, while the market value of the property in the district increased over the 27 year life of the district from \$19,562,290 to \$133,529,177 (numbers have been adjusted for inflation using 2005 values).
- The first urban renewal TIF district in **Missoula** "sunsetted" in 2005 and now provides state and local taxing districts with \$2,709,824 in new taxable value each year. Missoula's various TIF public/private programs in downtown leveraged a total of nearly \$36,000,000 in private investment during the life of the district. Overall, the public to private investment ratios in Missoula's first TIF district is approximately 1:18.

And in our smaller communities The TIF program in **Fort Benton** has leveraged \$100,000 of new construction activity associated with the downtown façade improvement program. TIF bonds in conjunction with an Economic Development Administration (EDA) grant will finance infrastructure improvements in **Hardin**, and in **Whitefish**, the taxable valuation of the urban renewal TIF district has more than doubled, from \$4,185,352 to \$8,387,001.

Why this bill is important

Tax Increment Financing enables cities and towns to direct property taxes that accrue from new development within a designated geographic area to various development activities. Typically, the designated area must be found to be infrastructure deficient or blighted in some way. A base year is established from which "incremental" increases in property values are measured. Virtually all of the resulting new property tax dollars can be directed to redevelopment and economic revitalization activities *within* the area in which they are generated.

Taxes that are derived from base year values continue to be distributed to the various taxing jurisdictions – local government entities and school districts. Tax Increment dollars result from increases in property tax values that occur within a district after the base year. There are no additional costs to the taxpayer. However, the other taxing jurisdictions such as school districts do not immediately benefit from the tax revenue associated with growth for a period of years – until the TIF program sunsets.

Therefore, it must be demonstrated that the entire community will benefit over time from the isolation of these incremental tax dollars. These benefits can be measured in increasing property values over time, which in turn will generate more dollars for local government, school districts and the State of Montana.

While the use of TIF in the state of Montana has been beneficial for many communities, it is important that we more carefully define how we use this important tool and limit potential abuses. This bill clarifies the types of activities, which can be funded with TIF. More particularly, because TIF is derived from property tax dollars, it is important that it be used to enhance property values over time through the investment in public infrastructure. The bill limits the use of TIF for private purposes to loans that can only be used to fund building improvements. New buildings constructed using TIF funds must be owned by the municipality and leased to private entities.

There are some who have advocated the use of TIF for loans to businesses for operational needs. This is not an appropriate use of TIF. There are a number of other programs available through the state and federal governments and private development corporations that provide business loans. TIF, on the other hand, allows local governments to invest in those areas, which have either suffered from decline due to lack of investment or are infrastructure deficient. **TIF provides an important incentive to development. Investors who choose to develop projects in TIF districts do so because their tax dollars are reinvested in the area where they are generated.**

This in turn increases the value of the private investment and the resulting taxable value. This bill helps to assure that this occurs.

Finally, there has been concern that the existing statutes do not adequately define how, when and where TIF districts are created. Communities have had little guidance in establishing districts and in a few cases, may have misconstrued the intent of the law. This bill clarifies the steps required to create a district, establishes criteria and provides for oversight through the Montana Department of Revenue.

I urge your support of HB 832 to assure that this very important community development tool is used appropriately.